

1. AIRLINES

The following special regulations are established in respect to airlines:

I. When allocating and apportioning income in accordance with the provisions of article IV of the Multistate Tax Compact, 24-60-1301, C.R.S. 1973, as amended.

A. In General. An airline that has income from sources both within and without Colorado shall determine income in accordance with this regulation. Income shall first be categorized as to "business" or "nonbusiness" income pursuant to Article IV.1 and Regulation IV.1. Nonbusiness income will be directly allocated to specific states in accordance with Article IV.5 to .8 inclusive. Business income will be apportioned to those states in which business is conducted based on the property, payroll and sales apportionment factors as set forth in this regulation. The amount of net income subject to tax by Colorado will be the sum of (1) the amount of nonbusiness income allocated to Colorado plus (2) the amount of business income attributable to Colorado.

B. Business and Nonbusiness Income. For definitions and rules for determining business and nonbusiness income, see Regulation IV.1.

C. Apportionment of Business Income. The same method in the reporting of items for all factors must be consistent for both the numerator and denominator.

1. The Property Factor

a. Property Valuation. Owned property shall be valued at its original cost and rented property shall be valued at eight (8) times the net annual rental rate in accordance with Article IV.11 and Regulation IV.11. The use of the taxpayer's owned or rented aircraft in an exchange program with another air carrier will not constitute a rental or subrental. Such aircraft shall be accounted for in the property factor of the taxpayer. Rotables, parts and other expendables, including parts for use in contract overhaul work, will be valued at cost.

b. General Definitions. The following definitions will be for both the numerator and denominator of the property factor:

(1) "Value" of owned real and tangible personal property. (See [Regulation IV.11\(a\).](#))

(2) "Original Cost". (See [Regulation IV.11\(a\).](#))

(3) "Average Value" of property. (See [Regulation IV.12\).](#)

(4) The "value" of rented real and tangible personal property. (See [Regulation IV.11\(b\).](#))

(5) "Net Value Rental Rate". (See [Regulation IV.11\(b\).](#))

(6) "Property Used During the Tax Period". (See [Regulation IV.10\(b\).](#))

(7) "Aircraft Ready for Flight" means aircraft owned or acquired through rental or lease (but not interchange) which are in the possession of the taxpayer and are available for service on the taxpayer's routes. It includes aircraft temporarily out of service for routine maintenance. It shall not include aircraft removed from service and held for resale.

(8) "Airmiles" means "miles ramp to ramp" as defined in the Civil Aeronautics Board (CAB) Uniform System of Accounts.

(9) "Airmiles in this State" means the number of miles computed from when an aircraft leaves a terminal in this State until it crosses the border of this State plus the number of miles computed from when the aircraft crosses the border of this State until it comes to rest at a terminal in this State.

(10) "Arrivals" and "Departures" means the number of times that an aircraft lands or takes off at an airport in revenue service.

(11) "Arrivals and departures in this State" means the number of times that an aircraft lands or takes off in revenue service at an airport located in this State.

c. The Denominator and Numerator of the Property Factor. Both the denominator and the numerator of the property factor shall include the average value of all real and tangible personal property owned or rented and used by the taxpayer during the tax period. Aircraft held for resale will not be included. Rotables, parts and other expendables including parts for use in contract overhaul work will be valued at cost and assigned where the property is located. Aircraft ready for flight shall be included in the numerator as follows:

(i) The ratio which the airmiles of the taxpayer's aircraft flew in this State bears to the total air miles ramp to ramp of such aircraft everywhere by type of aircraft times the denominator cost or value of each type of aircraft, weighted at 40%.

(ii) The ratio of arrivals and departures in this State bears to the total arrivals and departures everywhere by type of aircraft times the denominator cost or value of each type of aircraft, weighted at 60%.

2. The Payroll Factor. The denominator of the payroll factor is the total compensation paid everywhere by the taxpayer during the income year. (See Article IV.13 and .14 and Regulation IV.13 and .14) The numerator of the payroll factor is the total amount paid in this State during the tax period by the taxpayer for compensation. With respect to nonflight personnel, compensation paid to such employees shall be included in the numerator as provided in Article IV .13 and .14 and Regulation IV .13 and .14. With respect to flight personnel (the air crew aboard an aircraft assisting in the operation of the

aircraft or the welfare of the passengers while in the air), compensation paid to such employees shall be included in the same ratio as the property factor for "aircraft ready for flight" in 1(c)(i) and (ii) above.

3. Sales (Revenue) Factor. All revenue derived from transactions and activities in the regular course of the trade or business of the taxpayer which produces business income is included in the denominator of the revenue factor. (See Article IV.1 and Regulation IV.1) The numerator of the revenue factor is the total revenue of the taxpayer in the State during the income year. In determining the numerator of the revenue factor, revenue for hauling passengers, freight, mail, and excess baggage shall be attributed to this State based upon the same ratio as the property factor in "aircraft ready for flight" in 1(c)(i) and (ii) above.

Airtime, arrivals, and departures by type of aircraft shall be used in computing revenue attributable to this State derived from hauling passengers, freight, and mail. Receipts from the other business activities shall be included in the numerator in accordance with the statute.

If records of actual revenue by type of aircraft are not maintained, the total revenue shall be divided into passenger and freight (which shall include express, excess baggage and mail) revenue and allocated to aircraft type on the ratio of the revenue passenger ton-miles and revenue freight (which shall include express, excess baggage and mail) ton-miles of such type, respectively. Expressed as a formula, the computation for each type of aircraft would be:

$$\frac{\text{Miles by Type}}{\text{Total Revenue Passenger}} \times \text{Revenue} = \frac{\text{Revenue}}{\text{by Type}}$$

$$\frac{\text{Revenue Freight Ton-}}{\text{Miles by Type}} \times \frac{\text{Total Freight}}{\text{Revenue}} = \frac{\text{Freight}}{\text{Revenue by Type}}$$

Total Revenue Freight
Ton-Miles All Types

II. When apportioning income in accordance with the provisions of 39-22-303, C.R.S. 1973, as amended, the only deviations allowed from the provisions of 39-22-303 are:

A. The Property Factor. The numerator and the denominator of the property factor shall be determined in the same manner as set forth in part I with the following exceptions:

1. Real property rented by the airline is valued at eight (8) times the net annual rental rate. Tangible personal property rented by the airline is valued at three (3) times the net annual rental rate.

2. The property owned by the airline may be valued at its original cost or at its adjusted basis for federal income tax purposes in accordance with 39-22-303(3), C.R.S. 1973, as amended.

3. Construction in progress is to be included.

B. The Sales (Revenue) Factor. The numerator and the denominator of the sales (revenue) factor shall be determined in the same manner as set forth in part I. If in addition to the apportionment of business income above, the taxpayer has non-business income under part I, such income shall be included in the numerator and denominator in accordance with the provisions of 39-22-303.